

## EUROPEAN PARLIAMENT

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## Report

drawn up on behalf of the Committee on Budgets

on the report of the ECSC Auditor for the financial year 1976 (Doc. 220/77) and  
the discharge to be given to the Commission of the European Communities in  
respect of the financial and budgetary activities of the ECSC in that financial year

Rapporteur: Mr M. BANGEMANN



By letter of 6 July 1977 the Commission of the European Communities forwarded to the European Parliament the report of the ECSC Auditor for 1976.

The President of the European Parliament referred this report to the Committee on Budgets on 8 July 1977.

On 2 November 1977 the Committee on Budgets appointed Mr BANGEMANN rapporteur.

It considered the report at the meetings of its Control Subcommittee of 26 September and 8 November 1977.

The Committee on Budgets unanimously adopted the motion for a resolution and explanatory statement on 25 November 1977.

Present: Mr Lange, chairman; Mr Bangemann, vice-chairman and rapporteur, Mr Alber, Mr Amadei, Lord Bessborough, Lord Bruce of Donington, Mr Willi Müller, Mr Rådoux and Mr Shaw.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the report of the European Coal and Steel Community Auditor for the financial year 1976 and the discharge to be given to the Commission of the European Communities in respect of the financial and budgetary activities of the ECSC in that financial year

The European Parliament,

- having regard to the report of the European Coal and Steel Community Auditor for the financial year 1976 (Doc. 220/77),
  - having regard to the report of the Committee on Budgets (Doc. 421/77 ),
- A. Organization of the independent audit of the ECSC's financial and budgetary operations
1. Stresses that it is essential for the European Court of Auditors to ensure that the audit of the ECSC's revenue and expenditure and of all its borrowing and lending operations continues to be aimed above all at assessing financial management;
  2. Feels that such an assessment
    - a) is the only way by which the independent Auditor can make a proper evaluation of the activities of a Community that enjoys financial autonomy;
    - b) will help to back up an audit which must be regular and permanent and cover the daily activities of the Commission in the fields set out in the ECSC Treaty;
    - c) will facilitate the task of Parliament, which is required to deliver its opinion on the discharge to be given to the Commission and must therefore be able to base its deliberations on critical and stimulating conclusions drawn by the independent Auditor;
  3. Notes with satisfaction that the Commission has considerably facilitated the activities of the independent auditor, which have been based on fruitful and consistent cooperation;
  4. Notes the Auditor's statement to the effect that the administrative structures of the control body were no longer numerically sufficient to satisfy the needs of a permanent and growing activity; expects

the Court of Auditors to put forward proposals for a system which allows these shortcomings to be eliminated;

B. General remarks

The inadequacies of internal management control

5. Feels that the Commission has not taken any action on the remarks made by the Auditor and reiterated by Parliament when giving a discharge in respect of the ECSC's activities in 1975 as to the inadequate nature - often limited to accounting aspects alone - of on-the-spot checks on expenditure for research, rehabilitation, social housing and loans to officials and also checks forming part of the management of the levy on coal and steel production;
6. Urges the Commission to take steps, as the auditor has requested, to ensure that:
  - (a) progress towards attainment of the chosen objectives is accompanied by checks on the relevant documentation;
  - (b) greater emphasis is placed on the accounting aspects of financial dossiers and operations;
  - (c) the checks are carried out without excessive delays and are based on coordination - hitherto not fully realized between the responsible services of the Commission;

Administrative machinery

7. Reiterates, having examined the 1976 report, its criticisms regarding the inadequacies of the administrative machinery provided by the Commission for carrying out a complex and constantly growing activity, and considers it inadmissible that such weaknesses should affect the on-the-spot checks and the updating of the register of research projects;

The accounts and the European unit of account

8. Stresses the crucial importance, pointed out by the European Parliament on a number of occasions, of the introduction of the EUA into the ECSC's financial, budgetary and accounting machinery, and considers this to represent a step towards the creation of a Community payment system.
9. Points out that the adoption of the EUA brings with it daily variations in exchange value, which makes it difficult for the auditor to carry out his control activities; therefore asks the Commission to provide the auditor with all the information he requires to perform his work and, where appropriate, to make available, in special cases and for a transitional period, a currency account which enables him to carry out the necessary analyses and comparisons;
10. Wishes exclusive use to be made in future of the EUA for all the ECSC's financial operations and calls on the Commission to examine how this objective may be attained;

#### Accommodation of ECSC activities within political objectives

11. Urges the Commission to ensure that any ECSC financial and budgetary measures are coordinated with Community structural policy;
12. Notes that the volume of borrowings contracted in 1976 (29 totalling 956 m EUA) and of loans granted as a result has acquired considerable financial importance;
13. Therefore believes it essential for the Commission:
  - (a) to draw up a structured programme for borrowing and lending policy within the framework of the provisions of the ECSC Treaty
  - (b) to submit this programme to Parliament, which, each year, must have the opportunity to assess its scope and, where necessary, propose amendments;
14. Believes that, in view of the increase in all activities undertaken in application of the ECSC Treaty, all financial and budgetary operations should be covered by general objectives characterized by greater immediacy and continuity, in particular because ECSC activities relate to economic structures which, moreover, are very sensitive to market trends;

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#### 24 years of independent auditing of the ECSC's activities

15. Remains convinced that rules peculiar to the European Coal and Steel Community have made it possible to organize and develop a form of supervision of its financial and budgetary activities which, because of the principles on which it is based and the level of efficiency achieved, may be regarded as a valuable model for the European Court of Auditors;
16. Thanks the auditor and his predecessors for the efficiency of their audits, which have made a considerable contribution to strengthening the ECSC's image and placed at Parliament's disposal all the information it requires to appraise the ECSC's activities and to make its decisions on the giving of discharges in full knowledge of the facts;

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#### Basic information on the 1976 financial year

17. Notes that

- (a) expenditure totalled (in EUA): 403,411,941
- services of borrowings and guarantees 263,310,404
  - 'budgetary' expenditure 84,188,441
  - financial costs 38,626
  - excess of income over expenditure 55,874,470
- (b) income was broken down as follows:
- service of loans and guarantees 269,314,897
  - levy 92,609,414
  - interest on bank deposits and portfolio, 28,000,928
  - other revenue 13,486,702

18. Gives a discharge to the Commission in respect of the ECSC's financial activities in the 1976 financial year; invites the Commission, however, to create conditions that enable the early elimination of the shortcomings to which the Auditor has drawn attention;

19. Instructs its President to forward this resolution and the report of its committee to the Commission of the European Communities.



EXPLANATORY STATEMENTPART IPRELIMINARY REMARKS

1. The report submitted by the Auditor, Mr Paul GAUDY, is the last of its kind before the European Court of Auditors, now being constituted, takes over the audit function.
2. The duties of the ECSC Auditor are defined in Article 78e of the Treaty establishing the European Coal and Steel Community as partially amended by the Merger Treaty establishing a Single Council and a Single Commission. This article requires the Auditor to submit an annual report to the High Authority, i.e. the Commission. The Commission forwards this report to Parliament, which, by general consent, discusses in depth the details and comments it contains and gives the Commission a discharge in respect of the ECSC's financial operations.
3. An important feature of the ECSC's financial operations in 1976 was the introduction of the European unit of account (EUA). The Committee on Budgets will be stating its views on the problems connected with the EUA in a separate chapter.
4. This report generally follows the breakdown of the Auditor's report and after giving a general description of the problems associated with the use of the EUA, looks into the financial position of the ECSC and, in a second part, the actual audit of activities in the 1976 financial year. The final section summarizes in particular the criticisms repeatedly expressed and a number of proposed improvements and explains the problem of political control and the general political objectives.

## The ECSC's financial position

### A. Problems caused by the use of the EUA

5. For the first time all funds shown in both the ECSC financial report and the Auditor's report for the 1976 financial year are given in European units of account (EUA). The transition to this system was initiated by Decision No. 3289/75/ECSC<sup>1</sup>. However, the restriction of the EUA to certain sections of the accounts and certain areas of activity means that not all figures are comparable. Although the balance sheet at 31 December 1975 was expressed in the new unit of account, even then various figures shown in EUA (e.g. allocations to provisions) had to be converted into the old unit of account to make comparison possible. In this instance, too, a comparison of figures is difficult because of the different exchange rates applicable to the EUA. (Only the balance sheet totals can be compared by converting the 1975 figure at the rate on 31 December 1976).

The introduction of the EUA into the ECSC's financial budgetary and accounting machinery is an extremely important step towards the establishment of a realistic and generally applicable Community payment system. Despite the problems which still remain, the use of the EUA in the ECSC sector will provide the Commission with a very useful range of experience which it will be able to apply to the other sectors, where the EUA will be used, in principle, as from 1 January 1978. Parliament has always considered developments of this type to be absolutely essential to the progress of economic integration within the Community.

#### (a) The field of application of the EUA

6. Since 1 January 1976 the EUA has been the only monetary unit to be used in the case of financial commitments in the form of contracts or aid decisions and recoverable claims, (levy amounts, contributions and other).

7. This is not, however, true of borrowing and lending operations and investments, which continue to be expressed and managed in currency. Rights and obligations existing prior to 1 January 1976 also continue to be governed by the rules obtaining when they were contracted.

8. Nevertheless, there are certain banking activities (for example the service of interest and repayments), in which annual management operations are directly converted, with the result that the entire profit and loss (management) accounts can at any given moment provide a full view of the position. Correction or payment operations, however, are conducted in currency.

9. Only in the case of the rules applicable to the keeping of accounts and balance sheets is no exception made. All operations are shown in EUA, even if they were expressed in currency or old units of account.

<sup>1</sup> OJ No. L327 of 19 December 1975

10. Thus the introduction of the EUA has resulted in fragmentation of accounting operations, which are already divided into the managements services of the operational budget, on the one hand, and banking activities, on the other.

11. The many derogations and different principles of application are joined by daily changes in the value of the unit of account and various principles concerning the application of exchange rates:

- The equivalent value of the levy in national currencies is paid at the exchange rate applicable on the day prior to payment.
- However, for a transitional period ending on 31 December 1976 the conversion rate was, for each payment made from the 15th of a given month to the 14th of the following month, the rate obtaining on the last working day of the month preceding this period.

In the case of contracts expressed in EUA statements of expenditure may be drawn up at the rate 'obtaining on the last day of the half-year to which the statement pertains'<sup>1</sup>.

(b) Implications for the analysis of the balance sheet and the audit

12. The adoption of the EUA, not only as a monetary instrument for certain financial activities but also as a means of expressing, in accounting terms, values expressed in currency which occur in the form of assets, debts or operations, and the daily change in the relationship between the EUA and all other currencies has made it difficult to carry out the audit and the analysis of the balance sheet.

13. Only if an operation is carried out exclusively in EUA, because either the terms of a contract or an accounting method so require, do the terms of comparison remain valid irrespective of when they are examined. Where this is not the case, a conversion has no meaning unless it is made on a specific date, and the EUA can be used only for statistical purposes.

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<sup>1</sup> See Decision No. 3289/75/ECSC Article 4

14. Given, however, that the first balance sheet (at 31 December 1975) had been adjusted (as has been done with the report for the 1976 financial year), comparisons between assets and liability items in the years 1975 and 1976 remain quantitatively valid. Only if this method is applied is the neutrality of the EUA assured, an essential condition for a true unit of account.

15. In his report<sup>1</sup>, the auditor expresses regret that, owing to lack of time and means, he was not able to reconstitute figures which could be compared and analysed in the case of the management account. However, it was not for him to take over the function of the management services and reconstitute the picture.

(c) The incomplete nature of accounting

16. The Auditor points out that the quantitative elements of the management account cannot have any real significance, even as indicators, because of the constant change in the exchange rate or the value of the EUA and the conversion of different financial operations performed in currency on different days of the year at different exchange rates. The Auditor therefore found it impossible to reconstitute these financial operations and did not attempt to carry out an exact and direct verification of operations as to their quantity and value. A number of proposals for the improvement of the accounting system are made, and these will be discussed later.

17. The Auditor also speaks of a 'commendable initiative', which not only facilitates auditing operations, but would also make the EUA system as a whole more satisfactory.

The main banks most frequently concerned in ECSC operations opened accounts in EUA for the Community. This meant that those responsible for management and supervision were no longer required to carry out conversions for operations relating to rights and obligations subscribed in EUA. The EUA has thus assumed the role of a genuine currency. Unfortunately, these accounts are at present used only for outgoing payments. The next step<sup>2</sup> should be to use this procedure to collect incoming payments.

18. In the case of the financial settlement of rights and obligations created before 1 January 1976 the Auditor refers to the need for the appropriate contractual financial bases to be clearly reflected and respected so that the whole auditing operation does not become too complex and thus impossible.

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<sup>1</sup>Point 6 (p.12) of the Auditor's report

<sup>2</sup>As has been the case since 1.1.77.

(d) Practical problems connected with financial operations

19. This is an important matter, particularly with regard to the general introduction of the EUA for the Community's 1978 general budget and its use for all accounting, the management account and the statement of the Community's assets and liabilities (see Articles 10 and 71 of the Commission's proposal for a regulation amending the Financial Regulation of 25 April 1973, COM(76) 210 final of 19 May 1976).

20. The Auditor remarks

- that banks often deviate from the EUA rates published in the Official Journal by calculating to the eighth or tenth decimal place,
- that on some days the EUA rate for a given currency is not published because it is not available,
- that a number of errors in the rate published have never been corrected.

21. A solution should be found particularly to the second of the problems cited above, possibly by using the previous day's rate for the currency concerned.

22. A number of other technical problems will be taken up in the section on auditing operations.

23. The practical problems also include that of the neutrality of the EUA, to which this report will also revert when the investment of ECSC funds is discussed.

B. Analysis of the balance sheet

24. Including new loans granted out of early repayments, loans granted by the institution from its inception until the end of the year under review totalled almost 3,970 million EUA.

(a) Balance sheet

25. The balance sheet total rose by about 1,050 million EUA to 4,236,931,667 EUA, an increase of 33%.

### Assets

26. On the assets side this total is essentially composed of:

- 3,477 million EUA in long-term loans granted out of borrowed and own funds
- 423 million EUA in cash holdings and bank deposits
- 102 million EUA in other investments and portfolio securities.

The remainder of approximately 235 million EUA comes under the headings 'Sundry debtors' (90 million EUA), 'Accrued income' (92 million EUA) and 'Recoverable issuing costs' (53 million EUA).

27. At 2,960 million EUA, the financing of industrial investment projects accounts for most of the long-term loans granted (basis: Article 54 of the ECSC Treaty).

This sum comprises:

	(in 1,000 EUA)
. the iron and steel industry	2,296,387
. coal mines and coking plants	552,874
. iron ore mines	39,538
. power stations	71,022
. shipyards	3,272
	<u>2,963,093</u>
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An increase is noted in all these sectors, apart from shipyards, although a direct comparison with the previous year is difficult because of the change in the value of the EUA.

28. Other loans shown in the balance sheet amount to approximately 131 million EUA and originate from the special reserve (112 million EUA) and from funds raised by the levy (for research and rehabilitation) and the former ECSC pension fund for the financing of housing for Community officials.

29. The bank holdings primarily consist of fixed deposits (411 million EUA).

30. It is also worth mentioning that following the criticism expressed in the reports for the 1971, 1972 and 1973 financial years the item 'Real estate', which had been written off to 1 EUA, again appears in the balance sheet, the figure being 331,917 EUA.

#### Liabilities

31. The net total of loans floated reached 3,475 million EUA by 31 December 1976. Since its inception the ECSC has floated over 4,000 million EUA in loans. Once again loans in US dollars (1,500 million EUA) headed the list, which illustrates the first-class reputation the ECSC continues to enjoy in the United States.

32. At 31 December 1976 reserves (guarantee fund and special reserve) amounted to 282 million EUA or almost 6.7% of the balance sheet total. This is a normal proportion of own funds in the case of first-class banks.

33. This proportion increases further when account is taken of the sum of approximately 54.8 million EUA shown under 'Other provisions', which are in fact 'unallocated reserves', since they are not legally compulsory (see also point 64.6 of the Auditor's report).

34. Other provisions amount to approximately 200 million EUA and are intended for financial assistance in the fields of rehabilitation, research, interest reductions and aids.

35. The sum of approximately 64 million EUA shown under 'Miscellaneous' represents the debt arising from coupons and bonds which are due but have not yet been presented for payment.

36. As assets to the same value have been deposited with banks, which also service them, the same sum appears on the assets side under 'Sundry debtors'.

37. The contingent liability of approximately 21 million EUA carried under the suspense account represents guarantee commitments undertaken by the ECSC in favour of two Community undertakings which have been granted loans. The security obtained by the ECSC in return was a mortgage on the beneficiaries' land and plant.

(b) Management account

38. Income and expenditure result for the most part from the ECSC's investment budget, which is increasingly assuming the role of a 'bank' for the Community's coal and steel industry. At approximately 269 million EUA, income from the service of loans and guarantees exceeded expenditure on the service of borrowings and guarantees by about 6 million EUA.

39. In comparison, income from the levies paid by undertakings were, at just under 93 million EUA, modest, and as a consequence the ECSC's operational budget continues to appear very inflexible.

40. Other revenue, primarily that from investment, amounted to approximately 41 million EUA.

41. In the case of 'budgetary' expenditure, which amounted to approximately 84 million EUA, thereof 15.6 million EUA in administrative expenditure, there was a net surplus of income over expenditure of just under 56 million EUA, which was allocated to provisions.

42. The small size of the operational budget continues to reflect the disparity between available funds on the one hand and the financing requirements announced by the coal and steel sector on the other and has made it necessary for the Commission to resort in subsequent years to the floating of loans and to funds from the general budget of the European Communities.

43. The principle of ECSC self-financing by means of resources from the levy and from borrowing is an obstacle to the further development of its activities. Such development, which is essential in view of the crisis at present affecting the Community's coal and iron and steel sectors, presupposes the creation of new resources.

In its efforts to create such new resources, the Commission will have to be both imaginative and prudent, i.e. it must use all the scope offered by the Treaty but must not violate its provisions.



## Part II

### Auditing operations

#### Income from the levy

44. Income from the levy amounted to 92,609,414 EUA in 1976.

45. Pursuant to Decision No. 3378/75/ECSC of 22 December 1975 the rate of the levy was maintained at 0.29% of the average values per tonne of the various categories of chargeable products. An innovation was, however, the updating of the production values, which takes account of new quantities of products subject to the levy and consumed in recorded chargeable production.

46. The Auditor's report does not state what effect monetary fluctuations had on this updating (carried out on a u.a. basis). When the new values were introduced, it was objected that countries with strong currencies might be placed at a disadvantage.

47. Although the rate of the levy has remained the same in the last four years, the net levy per tonne has increased in each product category every year except 1973. The contribution of the various sectors to total levy receipts has not changed substantially since the 1975 financial year.

48. The Auditor also checked that the total product of the levy was correctly collected. In all, surveys of 430 undertakings comprising 584 works and pits, of which 47 were concerned with coal and 537 with steel, were carried out in the nine Member States. This list is constantly updated, although a number of smaller coal and steel enterprises in the United Kingdom which do not form part of the British Steel Corporation or the National Coal Board or which are not affiliated to a national federation have not yet all been covered by the survey.

49. For the first time the number of on-the-spot checks fell - to 29 against 35 the previous year. The Auditor again concludes from this that more frequent and more thorough inspections should be made and enterprises liable to the levy systematically contacted at regular intervals. The rapporteur firmly supports this suggestion, particularly with reference to the Commission's direct responsibility under the ECSC Treaty for organizing, fixing and collecting the levy. However, as specifically recommended by the Auditor, the Commission has during the current financial year stepped up these audits and is endeavouring to maintain a satisfactory rhythm which will make it possible to cover all undertakings in turn.

50. Criticism must also be levelled at the impossibility of checking whether currency amounts received were correct, since in most cases the exact date on which the debtor enterprise paid its levy amount was not given. This is a consequence of payments being determined in EUA but collected in national currency at the rate on the last working day of the

month preceding the month (from the 15th of one month to the 14th of the next) during which payment was made. However, since bank transfers involve considerable delay (up to several weeks), this date cannot be accurately determined.

51. These remarks by the Auditor lead the rapporteur to call as a matter of urgency for a review of the ECSC's choice of banks for the payment of levy receipts. Since the establishment of the international Swift system, which the most important international banks have already joined, it should be possible for payments to be made without excessive delay.

52. Account was taken of the fall in prices of steel products, the deterioration of sales conditions and undertaking's inadequate receipts and cashflow difficulties in a decision<sup>1</sup> whereby the levy due on steel production is not payable until the 25th of the third month following the month of production. Consequently, any late payments will not become apparent until the 1977 financial year.

#### Expenditure for rehabilitation

53. Expenditure for rehabilitation amounted to approximately 21.8 million EUA and new commitments subscribed for rehabilitation in the 1976 financial year to 25.1 million EUA, 85% being for the coal sector.

54. Nothing need be added to the Auditor's remarks. The minor discrepancies discovered in France, Belgium and the Federal Republic were corrected and confirmed the usefulness of on-the-spot checks.

#### Expenditure for technical and social research

##### (a) Coal sector (approximately 14 million EUA)

55. The Auditor criticizes in particular the depreciation rates used to determine the residual value of certain research equipment and generally deducted from the financial assistance when the final calculations are drawn up. These rates are often very high and not subject to any set rules. The Auditor therefore suggests that all contracts should contain appropriate clauses, as was done in one case.

56. As has been pointed out in previous reports, the time lag between the institution's decision to approve a research project and the signing of the contract is still too long.

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<sup>1</sup> Decision No. 755/76/ECSC of 31 March 1976

(b) Steel sector (11.6 million EUA)

57. Here, too, the interval between the decision and the signing of the contract continues to be excessive (up to 11 months). As in 1975, this situation creates frequent anomalies, whereby the contract may even specify a starting date for the work which precedes by several months not only the signing of the contract, but even the decision to authorize the assistance.

(c) Iron ore sector (approximately 3.5 million EUA)

58. The situation in this sector gives considerable cause for complaint. The Auditor again criticizes the excessive delays in the closing of dossiers and calls for additional efforts to be made without delay to give priority to the performance of tasks that should have been completed long ago.

59. The rapporteur fully endorses this appeal. According to the Auditor, both the beneficiaries and the Commission are responsible for the delays.

60. The lack of rules on depreciation criteria is also criticized in the case of the iron ore sector.

61. Gratifying, but still insufficient, progress has been made towards reducing the delay between the signing of a contract and the beginning of the work (up to 6 months compared with up to 9 months in 1975).

62. There were very few specific complaints, which further justifies the independent audit.

(d) Social research

63. Deficiencies were again noted in the handling of expenditure in the social research sector, a subject to which the European Parliament's Control Subcommittee might devote further attention. The Auditor proposes that the following additional measures should be taken in the research sector as a whole:

- The register, an instrument of supervision and coordination between administrative departments, should be kept up to date by evaluating comprehensive information drawn up by those responsible for financial and technical matters;
- In the case of enterprises with a complex hierarchical structure and public institutions it should be established beforehand who will be responsible for keeping the accounts and for supervising the research work;

- A brief manual should be compiled for the use of research workers, summarizing their obligations vis-à-vis the Commission.

Expenditure incurred by the granting of reduced-interest loans for structural reorganization (Article 56) and industrial investments (Article 54)

- (a) Industrial structural reorganization (expenditure of approximately 4.3 million EUA)

64. The procedure was changed from 1 July 1976: the nominal interest rate remains the same and the institution refunds the amount of the interest reduction. Up to 30 June 1976 the assistance had taken the form of a three-point reduction in the interest rate set in the contract.

- (b) Interest reductions on loans for the financing of industrial investments in the coal and steel sectors (9.25 million EUA)

65. Allocations to the provisions, which provide information on entitlements, amounted to approximately 13.2 million EUA at 31 December 1976.

Assistance to coking coal and coke

66. Decision No. 2963/76/ECSC of 1 December 1976 required the maximum assistance rates to be expressed in EUA and to be increased by a flat rate of 5.5% retroactively from 1 January 1976.

67. The checks carried out did not give rise to any complaints, except that the review of the Member States' contributions<sup>1</sup> once again revealed that Italy still owed its contributions for the past three financial years.

Administrative expenditure

68. As stipulated, the Auditor restricted himself to establishing that the annual contribution to the administrative budget of the European Communities is correct and disbursed in the required manner. External auditing is the responsibility of the Communities' Audit Board alone.

69. Under Article 20(2) of the 1965 Merger Treaty the ECSC must pay its annual contribution (18 million u.a.) to the general budget of the European Communities exclusively out of its levy income. Despite the introduction of the EUA this income is received in currency and is also deposited in accounts held in currency. The Auditor's suggestion continues to be that the percentage of each currency making up the contribution payment should reflect the respective proportions of those currencies received as levy income so that transfer operations are not to the benefit or disadvantage of the ECSC or the general budget.

<sup>1</sup> On the basis of Decision No. 73/287/ECSC;  
See OJ No. L 338 of 7 December 1976.

70. The Commission applied this method in 1975. However, for reasons that are not given, the ECSC contribution in 1976 was paid from four currencies only. This produced the equivalent of approximately 15.6 million EUA (= 18 m u.a.). The Auditor's calculations reveal that, expressed in EUA parities at 31 December 1976, roughly 18.5 million EUA would have been collected if the Commission had kept to the previous method. This difference, however, is significant only in terms of accounting.

71. According to the Auditor, the internal rules on the drawing up and implementation of the ECSC's operational budget, which have been in force since 2 August 1976, were not applied to the payment of the contribution for the 1976 financial year. These rules stipulate that sums payable in national currencies for each u.a. budget must be proportional to the amounts of the national currencies which make up the EUA. This arrangement must remain valid until the EUA is adopted for the general budget.

72. In its communication (COM(77) 280 final of 16 June 1977) the Commission proposes that the ECSC's administrative budget should be changed so that the contribution of 18 million u.a. to the ECSC's administrative expenditure is reduced to 5 million u.a. from the 1978 financial year. The amount thus released should be used to increase the urgently needed rehabilitation assistance for rationalizing the iron and steel industry and to intensify interest reduction activities.

#### Borrowing, lending and guarantee operations

##### (a) Borrowing

73. The ECSC's borrowing activities continued to increase in 1976: 29 loans were floated (against 22 in 1975), a total of over 966.2 million EUA being borrowed. The ECSC has thus contracted a total of 154 loans to a value of almost 4,200 million EUA since its inception.

74. Mention should also be made of a minor technical innovation: separate records showing the costs and receipts arising throughout the term of the loan now make it possible to calculate the net financial result for the year.

##### (b) Loans

###### - granted out of borrowed funds

75. Lending activities also increased. Loans granted out of borrowed funds totalled nearly 1,050 million EUA in 1976. Loans to finance industrial investments accounted for about 93.6% of this. The residue was used for industrial structural reorganization and social housing.

76. In the Auditor's view, which the rapporteur fully endorses, the financial propriety of lending activities can only be established if the institution always keeps its policy objectives up to date. Thus, particularly in the iron and steel sector, the criteria for granting loans are matched against a reality which changes extremely rapidly and are used to make up for the fact that the General Objectives are not kept up to date. They are not therefore incorporated in a general concept that should provide the justification for the action proposed. This lack of assessment criteria makes it impossible for the independent Auditor to judge whether the investments are in line with the general policy concept on the basis of which Community financial aid is granted. These criteria must be permanently kept in line with conjunctural developments.

77. At the end of the financial year loans still outstanding from defaulting debtors represented about 0.06% of all loans granted out of borrowed funds. The Auditor reports on three cases in which debts could not be recovered because

- under the terms of a rationalization plan agreed with an enterprise repayments were waived (total amount abandoned: approximately 1.3 million EUA);
- the recovery of a debt of almost 1 million EUA proved difficult despite a guarantee in the form of a mortgage on a piece of land;
- a debt of approximately 63,000 EUA could not be recovered even though it was guaranteed by a first mortgage.

78. Despite the relatively small sum involved in these debts the rapporteur urges that greater care be taken to ensure that guarantees given for loans maintain their value.

- granted out of non-borrowed funds

79. Approximately 27.7 million EUA was granted in loans from own funds and about 15.8 million EUA from the former pension fund. The latter sum took the form of loans to officials of the Community institutions for the construction or purchase of personal housing. The Auditor has some cause for complaint here and calls for the already very strict supervisory operations to be made even more thorough. It is gratifying to note that clear progress was made in the way in which dossiers were kept.

Management and investment of funds

80. The audit in this field was aimed at ensuring that the criteria of yield, security and liquidity had been respected.

Remarks:

81. We are pleased to note that the average annual return on liquid assets rose between 1973 and 1976 from 6.7 to 7.95%.

82. Average liquid assets were 508 million EUA. The greater part of these funds is held in current accounts at sight, in fixed-term deposits and as securities. As in the report for the 1974 financial year, the Auditor criticizes a fixed-term deposit of almost 10 million FF bearing a low rate of interest and entrusted to a bank which was to reloan the funds to coalmining enterprises. Since the maturity date has long since expired, urgent action is required.

83. A table occupied by the Auditor on the level of investments in the various currencies (see p. 88 of the report) shows that holdings in Lit and £ fell off considerably, mainly in favour of DM holdings. According to the Auditor, the reason for this was as follows:

The fact that the Directorate-General for Budgets is responsible for payments and the Directorate-General for Credit and Investments for reimbursements resulted in different approaches by these two services, the former paying and entering financial assistance in EUA, while the latter reimbursed this expenditure in Lit and £.

84. In this connection, the Auditor rightly criticizes the resulting loss of neutrality of the European unit of account in intra-Community relations.

85. The following points, some of which were made in previous years, should be noted:

- faulty statements of account from the banks,
- losses in financial operations in two Member States, partly due to national legislation (compulsory intervention),
- the dispute already mentioned in the report for the 1974 financial year over the question of the rent received by the ECSC for a property in Washington,
- various technical difficulties connected with the use of the EUA (use of different exchange rates by the banks, rates for some currencies not published on some days (see also the separate chapter on the problems raised by the EUA).

#### Financing of social housing construction

86. The standard programmes for housing construction were 72% financed from loans granted out of the special reserve, the remaining 28% coming from borrowed funds. Since the inception of the institution 137,305 dwellings have been completed.

87. Despite repeated criticism in past reports, no change has been made as regards the inadequate opportunities for checking the implementation of construction programmes. The Auditor therefore wonders if it would not be a good thing for direct, on-the-spot checks to be occasionally carried out.



## Conclusions

88. The introduction of the EUA means that for the first time the summary of the main features of the ECSC's financial activities in 1976 is subject to restrictions. The reason for this is to be found in the transition to the various u.a. systems without a complete accounting system in currency being retained and in the daily changes in the exchange rate for the EUA (see the chapter on the problems connected with the use of the EUA).

Deficiencies are also noted in numerous sectors, already referred to in previous reports. A list of the most important shortcomings still not eliminated is to be found on page 27.

89. To summarize, problems are created by

- (a) the introduction of the EUA
- (b) the management auditing conducted by the Commission,  
which conditions the work of the independent Auditor,
- (c) deficiencies in internal organization.

### Re (a)

90. The Auditor rightly states that it should be possible to check verifiable data taken directly from the accounts and statements, and therefore suggests that not only the value in EUA but also the corresponding amount in the appropriate currency should be recorded.

91. The levy should not only be calculated in EUA but also collected in EUA accounts held for the Community. Disbursements under new contracts drawn up in EUA should also be made out of these accounts. In the case of operations which continue to be conducted in currency, it would therefore be a pointless and an unnecessary complication to carry out a conversion into EUA. In the Auditor's view, the EUA should be used in such cases only for statistical purposes. Only thus will a correct assessment be possible, assuming, of course, that the exchange rate applying on the date on which the statistics are drawn up is known.

92. However, a dual system must be maintained as long as there are legal instruments drawn up in currency in respect of assistance contracts or loan service.

93. Consideration should be given to the possibility of introducing a regulation amending retroactively legal acts drawn up in u.a. or currency, as provided for in a proposal from the Commission for a regulation on the use of the EUA in the legal acts of the organs of the European Community.<sup>1</sup>

In any event, all financial movements should be made verifiable and comparable.

Re (b)

94. Some concern is caused by the Auditor's remarks on the inadequacy of the administrative machinery, which shows that complete accounting is not assured. The rapporteur endorses the Auditor's statement in point 65.23: 'Management control cannot be fully efficient unless it allows a third party to pick out quickly conclusions regarding the smooth conduct of operations and information needed to pursue the policy implemented.'

Re (c)

95. Deficiencies in internal organization can be summarized as follows:

- delays in drafting and signing contracts and riders,
- centralization of the accounting system despite the separate keeping of accounts, if an accounting plan is introduced,
- inadequate information 'circuit' between departments, making it difficult to keep the register of research loans.

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<sup>1</sup> Doc. 362/76

### Part III

#### Assessment of the auditing operations, political objectives

##### A. The Auditor's most important comments

96. It must unfortunately be said that many of the deficiencies referred in past Auditors' and parliamentary reports have still not been completely and satisfactorily eliminated.
97. The rapporteur lists below the most important deficiencies and adds a number of suggested improvements, some of which have already been made by the Auditor and which should form the basis for a revision by the Commission of its activities as the executive body.

##### Audit area

- Levy receipts: 98. Difficulties continue to be encountered with the returns submitted by continuous casting enterprises. According to the Auditor, the High Authority's communication published in the Official Journal of 6 November 1962 regarding the procedure for the assessment, declaration and collection of the levy should be supplemented since enterprises often fail to realize that they have to declare crop ends from continuous casting or 'seconds'.

##### Rehabilitation assistance:

99. Criticisms again levelled at the lack of detailed justifications and motives for decisions to grant assistance or increase credits. This is particularly true of the coal sector.
100. This point is a fundamental component of the problems still to be solved in connection with political control and of the conditions for an assessment of the aid policy by the appropriate departments.

##### Technical and social research:

101. Comments are repeatedly made about the frequently very long period between the Commission's decision approving a research project and the signing of the contract. The same applies to contract extensions, which often necessitate the drawing up of back-dated riders.

Although there has been an improvement in the steel

sector as regards the interval between the submission of an application and the signing of contract riders and between the decision and the signing of a contract, it is in some cases still too long (up to 11 months).

In the iron ore sector delays still occur in the closing of dossiers, for which, in the Auditor's opinion, both the beneficiaries and the Commission are responsible.

Financial assistance to coking coal and coke:

102. Although it has paid its contribution for the 1973 financial year, one Member State continues to owe contributions for three financial years.

Lending activities: 103. The remark already made under the heading 'Rehabilitation assistance' as regards the lack of detailed justifications and motives for decisions also applies to the sphere of lending activities. The principal deficiency here concerns the updating of the General Objectives. This shortcoming makes it impossible particularly for the independent Auditor 'to judge whether the investments for which the loans are given in fact meet the general policy criteria on the basis of which Community financial aid is granted'.<sup>1</sup>

The rapporteur asks the Commission to establish more complete assessment criteria and thus to improve the formulation of the objectives.

Investment of funds: 104. It should be immediately ascertained why a Bank has not yet reloaned deposits of 9.5 million FF.

It has still not been possible to eliminate other inaccuracies in the statements of interest issued by banks, in the fixing of the rent for an ECSC property in Washington and losses incurred in certain financial operations of the ECSC (purchases or repurchases of ECSC and other securities).

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<sup>1</sup>Point 54.20.112 of the Auditor's report.

Social housing construction: 105. There has been no change in the checking procedures followed for construction programmes.

The rapporteur reiterates his request that the participating credit institutions be involved in the checks. In this connection, the Auditor raises the question of occasional direct, on-the-spot checks.

#### B. Suggested improvements

106. One proposal made by the Auditor concerned the determination of the residual value of equipment, which is deducted from the financial assistance granted for technical and social research when the final calculations are drawn up. The Commission is asked to include provisions on the depreciation rates for equipment in contracts at the time of their conclusion.

107. To improve the organization of the keeping of accounts and the supervision of research work, the difficulties encountered with enterprises with a complex hierarchical structure and institutes of the university type indicate the need for a brief manual for research workers, summarizing their obligations towards the Commission.

108. On the question of the new unit of account (EUA) the rapporteur feels that it should be used not only for book-keeping purposes. It should also be raised to the level of a contract criterion and be used as the payment medium in the case of receipts. Where the day's exchange rate is not available, the last officially noted rate should apply.

109. Generally speaking, two systems should be used:

- For all transactions in currency arising out of earlier legal acts the currency figure should be entered alongside the EUA figure.
- For all future transactions and in all new contracts, including those granting loans, the EUA should be the only monetary unit used.

The achievement of this objective might have a not inconsiderable side-effect: the increasing chance of the EUA one day being accepted as a genuine European payment medium.

C. The problem of political control of ECSC policy

110. At the meeting of the Control Subcommittee the following ideas emerged on the problem of political control of ECSC policy.

111. The role of political control in the general context of external control assumes particular importance in view of the criticism which has already been made of the failure to pursue evolving policy objectives. This was also a central theme of the last report (see GERLACH report, points 54-61).

112. In the context of Parliament's efforts to obtain a greater say in political matters, i.e. in the establishment of policy objectives - efforts which are again being pursued during the 1978 budget procedure - Parliament's position should once again be emphasized.

113. Parliament's aim is to progress from a mere assessment of the legality of the Commission's financial activities within the ECSC through a consideration of their economic effectiveness to a genuine verification of their expediency, i.e. to a retrospective approval of expenditure, with a view to exercising a political influence on the Community's financial activities.

114. In this connection the rapporteur hoped for active support from the Court of Auditors so that, through a permanent dialogue with this new institution, it would be possible to verify not only the accounts but also the attainment of policy objectives. The present Auditor has already carried out valuable preparatory work for this purpose and has developed a method of assessment for the area covered by external control; this is reflected in the annual reports.

115. Parliament's ultimate aim should be to achieve the full integration of the objectives into regional, social, industrial and structural policy. It has already called for such a step in its resolution in the report on the crisis in the Community's iron and steel industry (Doc. 198/77).

116. It is interesting to note in this connection the more or less direct admission by the Commission in its guidelines for Community regional policy (Doc. 183/77), that the loan policy hitherto pursued by both the ECSC and the EIB was unsatisfactory. 'Consequently, not only is the effectiveness of these instruments impaired, but the opportunity they afford of transferring capital to the national economies whose regional development and reconversion problems are most acute is thereby seriously constrained' (Doc. 183/77, p. 52).

117. In general the political nature of the ECSC's activities should be increased; this again might have budgetary consequences. This also raises the question of the inclusion of the whole of the ECSC's activities in the budget of the European Communities.

118. As became clear during an initial exchange of views with the Commission and the Auditor at the subcommittee meeting of 26 September 1977, the demand for effective participation in the definition of political objectives through budgetization and budgetary control by Parliament, should be advocated with caution:

119. As emphasized by both the Auditor, Mr GAUDY, and the responsible Director-General of the Commission, Mr STRASSER, the ECSC Treaty places the Commission/High Authority in the special position of being both an executive and legislative body. Its unique financial autonomy gives it particular freedom of movement but also responsibility. Any change in this situation by amending the appropriate provisions of the Treaty would disturb the balance between the institutions and inevitably vest greater powers in the Council, with all the consequences that would entail.

120. However, the question arises as to how far this would in reality strengthen the position of the Council instead of that of Parliament as is intended, and whether the Parliament's role could not be strengthened without amending the Treaty.

The rapporteur has drafted a number of considerations on this matter:

121. The minimum solution envisaged by the rapporteur to increase Parliament's powers of influence and control, would be for a credit committee or similar body, including Members of Parliament, to supervise the ECSC's borrowing and lending activities. This would ensure a measure of parliamentary participation in financial transactions which are among the most extensive undertaken by the Community. However, to achieve this aim it would be essential for the Commission to draw up, in accordance with the provisions of the ECSC Treaty, a policy document in the shape of a borrowing/lending programme, whose implications would have to be assessed by Parliament which would have the right of amendment.

122. The optimum solution would be budgetization, already mentioned above, i.e. the integration of all financial activities in - or their subordination to - the overall regional, structural and industrial policies of the Community within the framework of the general budget. Under present circumstances, in view of the unequal distribution of power between the two budgetary authorities, this solution would undoubtedly be premature.

123. A compromise solution should therefore be sought which best meets Parliament's objectives in the light of present circumstances.

The rapporteur feels that a way must be found of creating a link between participation in the formulation of policy objectives and control of the ECSC's financial (lending) activities.

124. One solution would be to transfer budgetary powers to Parliament, on the lines of the existing procedure for consultations between the Council and Parliament. The Commission and Parliament would act as the budgetary authority.

125. Under this system policy objectives could be laid down in the operational budget of the ECSC and implemented by recourse to an extraordinary budget financed by loans. This would of course require a special budgetary procedure which would have to be developed pragmatically.

126. The decisive advantage of this solution is that it would involve no modification or extension of the Council's powers while the ECSC's unique flexibility and autonomy would remain largely unaffected.

127. All these considerations naturally presuppose that all developments would take place within the framework of the objectives of the ECSC Treaty and would preserve the special character of the ECSC.

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#### SUMMARY

##### Activities of the Control Subcommittee in connection with the audit

128. Given the many different aspects of the problems involved it would be desirable for the Control Subcommittee to investigate, on behalf of the Committee on Budgets, the question of political control - already broached in the last report (rapporteur: Mr GERLACH, Doc. 567/76) - and to submit its conclusions to the European Parliament in the form of a report.



129. Briefly, the problem lies in the wide discrepancy between the demand by the auditor and also by Parliament for political control and the fact that the ECSC's activities resemble in every way those of a private undertaking, whose decision-making body has both a legislative and executive function.

130. The subcommittee's task in this connection would be to consider how best to fix policy objectives and ensure their control by Parliament, without altering the balance between the institutions in a manner which would impair the ECSC's effectiveness.

131. Furthermore, in describing the control activity in various fields, the last report recommended that the Control Subcommittee should make special studies of the following aspects:

1. in the steel sector: technical and social research,
2. borrowing.

1.:

The Control Subcommittee was asked in particular to investigate shortcomings in the timetabling and administrative organization of research in the steel sector.

2.:

In view of the rapid growth in the ECSC's borrowing activities, it was suggested that the Control Subcommittee should make a separate investigation of the entire loan issue procedure.

Since no action has yet been taken on either of these matters, the Control Subcommittee should now be officially instructed to carry out these investigations and report on them.

COMMENTS BY THE COMMISSION OF THE EUROPEAN COMMUNITIES  
ON THE REPORT BY THE ECSC AUDITOR FOR 1976

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INCOME FROM THE LEVY (Paragraphs 36 to 37.8)

As the Auditor states in his report, the twenty-nine reports on on-the-spot checks made by the High Authority/Commission in 1976 had all been processed by 31 December.

The High Authority/Commission confirms that regular and systematic checks are carried out in respect of levies under an overall inspection programme; the priorities of this programme are set by the Levy Office which records and collects the statements from the undertakings liable to tax.

RETRAINING EXPENDITURE (Paragraphs 38 to 39.6)

The High Authority/Commission is pleased to note that the Auditor considers the checks by Commission departments had been properly carried out. The reports drawn up on these inspection visits are forwarded to the Auditor's staff as quickly as possible.

As far as aid decisions by the High Authority/Commission are concerned, the High Authority/Commission would point out that the arrangements for granting and paying retraining aid are laid down in framework agreements concluded with national governments. A copy of these agreements has been sent to the Auditor's staff.

The grounds for the implementation of such agreements are based on Article 56(2) of the Paris Treaty which states:

"2. If fundamental changes, not directly connected with the establishment of the common market, in market conditions for the coal or the steel industry should compel some undertakings permanently to discontinue, curtail or change their activities, the High Authority, on application by the governments concerned:

.....

(b) may provide non-repayable aid towards:

.... .

.....

The High Authority shall make the provision of non-repayable aid conditional upon payment by the State concerned of a special contribution not less than the amount of that aid, unless an exception is authorized by the Council acting by a two-thirds majority."

The government concerned submits a detailed statement of justification for the application of Article 56(2) of the ECSC Treaty with its application for aid. It is only after the case has been studied by the relevant departments that the High Authority/Commission takes a decision on the application by the government in question

This application is filed in a dossier with the opinions of the various Commission departments and may be consulted by the Auditor at any time. The application must give all necessary proof of its compatibility with Article 56(2) and the framework agreements in question.

#### TECHNICAL AND SOCIAL RESEARCH EXPENDITURE (Paragraphs 40 to 46)

The number of dossiers in the research sector stood at just below 800 at the end of 1976 (390 for steel, 150 for coal and 260 for social research) against 700 (320 for steel, 120 for coal and 260 for social research) at the end of 1975.

#### 1. INTERVAL BETWEEN THE DECISIONS AND THE SIGNING OF THE AGREEMENTS

Past experience confirms that an interval of six to eight months must elapse between the date on which the High Authority/Commission adopts a decision to grant aid and the date on which a research agreement can be signed, and that this period seems virtually inevitable

The reason is that the decision taken by the High Authority/Commission also authorizes:

- (1) the amounts required to finance the research projects to be entered as a provision;
- (2) the dossiers to be forwarded to the ECSC Consultative Committee for consultation;
- (3) the decision to be forwarded to the Council for its approval.

A period of two to three months must therefore firstly be reckoned with for these consultation procedures to be completed, given the time required for translation of the documents into the six official Community languages.

Secondly, there is the time required:

- (a) for the agreement to be drafted and negotiated with the beneficiaries;
- (b) for the Legal Service to give its opinion and the Financial Controller to approve the agreement (admittedly, since use is now always made of a standard contract drawn up in 1976, to which certain clauses peculiar to each contract can be added, this procedure has been speeded up);
- (c) for the signature of the beneficiaries (of which there are often several) to be collected.

In view of these - often long - time lags, and, in order to prevent the starting research work being subjected to delays which may be harmful to Community industry and which would mean a corresponding delay in the communication of the results of such work to the relevant bodies in the Community (which is the sole objective of providing aid), the High Authority of the ECSC decided on 28 June 1967 (and confirmed its decision on 28 November 1967) that, if the beneficiary of the aid so wished, the research expenditure which would be used to calculate the ECSC aid would be that which the beneficiary would have incurred no earlier than on the date on which the High Authority decided, after examining the dossiers, to forward the proposal for aid to the Consultative Committee and to the Council for their opinions.

Under no circumstances is an agreement signed until the High Authority/Commission gives its authorization after the consultation procedure provided for in Article 55 of the ECSC Treaty has been completed. The application of this decision in practice therefore sometimes means that the starting date for the work which is laid down in the agreements precedes the signing of the agreement but always follows the decision to forward the dossiers to the responsible Community departments.

The High Authority/Commission would also point out that precise instructions have been given to the responsible departments to keep procedural delays to a minimum, so that the requisite supplementary agreement can be drawn up on time. Article 28 of the internal rules for the implementation of the operational budget of the ECSC hence states: "The amounts entered as provisions for research aids which have not been covered by a signed contract in the nine months following the decision of the High Authority/Commission to create a provision shall be cancelled".

## 2. INSPECTING AND CLOSING RESEARCH ACCOUNTS

The High Authority/Commission agrees with the Auditor that the inspection and closure of research accounts should be carried out as quickly as possible once the research work has been completed. This is why the Commission departments draw up an annual schedule of all research accounts to be closed in that financial year. This schedule will in future be forwarded to the Auditor for information.

Although the final inspection of the research work must be carried out as quickly as possible once it has been completed, it should be remembered that Article 5(4) of Annex II to the research agreement states: "Within twelve months of the completion of the research or of the using-up of the financial aid granted, the Commission, after discussing with the beneficiary, shall close the accounts and determine the exact extent of its contribution".

Although the twelve month period may be reduced to six months in some cases, it must be borne in mind that the beneficiaries need time to enter all the research expenditure into the accounts and to draw up the final technical report. Finally, the High Authority/Commission must retain a certain degree of freedom to organize its inspection visits in a rational fashion and keep unnecessary journeys to a minimum.

## 3. RESIDUAL VALUE OF EQUIPMENT

In its Communication concerning applications for and the grant of financial aids for research carried out under the ECSC Treaty (OJ No. C 139, 12 November 1974), the High Authority/Commission defined what is meant by research expenditure to be included in the amount of its financial aid (Article 15). This paragraph defines, inter alia, such expenditure as the net research expenditure, which equals the total expenditure, less any sums which may be recovered (such as discounts, price reductions, recovery of materials or of finished products, sale of equipment or facilities).

In practice, this provision (restated in Article 7 of Annex II of the research agreements) obliges the contracting parties, once the accounts have been closed, to determine by joint agreement the residual value of the equipment which has been purchased or constructed on the basis of the funds made available to the beneficiary by the ECSC to carry out the research work.

It must, however, be remembered that in most cases such equipment was purchased or constructed especially for the research work and cannot be regarded under any circumstances as equipment necessary for production. The residual value cannot therefore be calculated by means of linear depreciation; it must be regarded as the current use value to the person acquiring the equipment. It may therefore happen that equipment which would cease to have any value if linear depreciation were applied is still of appreciable value if the current use value method is used. The reverse is also true: equipment which is virtually new may in all likelihood be of no useful value to the researcher and therefore have no residual value when the accounts are closed.

The foregoing shows how difficult it is to estimate the residual value of equipment at the end of research projects; this must be carefully assessed by both financial and technical experts.

A depreciation rate fixed prior to the agreement can only be applied in a very small number of cases. The High Authority/Commission uses this method whenever possible.

As far as checks on the implementation of the research work are concerned, the High Authority/Commission reaffirms that its departments always carry out final financial and technical inspections of the research work involved. These inspections are carried out jointly by the financial and technical administrators. At the technical level, committees of international scientific experts regularly monitor the implementation and progress of the research work.

It must, however, be admitted that some beneficiaries have not conducted their research agreements to our full satisfaction both from the viewpoint of the execution of the work itself and the interpretation of clauses in the agreement.

These cases have given rise to dispute, but they have gradually been settled.

At 31 December 1976 some twenty cases were still pending and were being studied.

The proportion of disputes arising out of the total number of research projects financed by the Institution is less than 1%.

## GENERAL CONCLUSIONS (Paragraphs 64 to 67)

### 1. UNALLOCATED RESERVES (54.8 million EUA)

The description used by the Auditor ("unallocated reserves") requires elucidation. These 54.8 million EUA are made up of:

28 million EUA to cover aid already voted by the Commission the contracts for which are in the process of being signed;

16 million EUA representing the proportion of revenue from interest on unborrowed funds for 1976 which, coupled with the levies for 1977, is intended to cover budget expenditure in 1977;

10 million EUA entered in a provision to meet unforeseen economic situations and budgetary expenditure to be used to offset any shortfall in revenue in coming years. This provision will probably be drawn on in 1977 to help the crisis-ridden steel industries;

0.8 million EUA entered in a provision to meet any depreciation in the portfolio.

Of the 54.8 million EUA regarded by the Auditor as unallocated reserves only 10.8 million EUA could in fact be regarded as available reserves at 1 January.

### 2. USE OF THE EUA

The EUA has been used in the ECSC operating budget in accordance with the rules deriving from the application of the Commission Decision of 18 December 1975.

It should be borne in mind that the introduction of the EUA is an important innovation and that the Commission intends to gradually introduce it so that it can iron out any problems.

Although the application of the EUA (i.e. expressing all debts and claims and a growing number of Community payments in EUA) has not given rise to any insuperable problems, its introduction has certainly necessitated a large-scale information campaign among the Commission's administering departments and those of the ECSC's levy-payers and co-contractors. The Commission is pleased to say that this operation has been successfully completed.

Finally it should be pointed out that, as from 1977, ECSC levies on coal and steel production will not only be declared in EUA but will also be collected in EUA through bank accounts opened and kept in EUA in the Member States.

Admittedly, certain administrative problems have had to be resolved in the management of contracts previously concluded in national currencies. However, every six months the balance due on existing contracts are entered in the accounts in national currencies and EUA. It is therefore perfectly easy to check that these contracts are being correctly implemented. This is, furthermore, a temporary situation which will have completely disappeared by 1979.

### 3. ACCOUNTING SYSTEM AND REGISTER

The High Authority/Commission completed the reorganization of the accounting system for the ECSC operating budget, which it had decided upon in April 1975, in the first half of 1976.

This reorganization introduced an accounting system for the whole ECSC operational budget, which enables the technical and financial administering officers, the internal Financial Controller and the Auditor to follow the day-to-day implementation of the budget.

Monthly ledger and balance statements are automatically forwarded to the relevant departments of the Institution.

In the interests of clarity, the information contained in the register has also been incorporated into the accounting plan since the beginning of the year. The monthly statements hence contain the following information for each contract:

- (a) the amount in EUA;
- (b) the dates on which the contract begins and ends;
- (c) any supplementary agreement extending the contract;
- (d) the dates of reception of the various financial reports;
- (e) payments made;
- (f) the dates of interim on-the-spot inspection visits carried out;
- (g) the date of the final inspection;
- (h) the date of reception of the final technical report.



At the technical level itself, the reports drawn up by the various committees of experts are kept by the relevant departments for consultation by outside bodies.

The centralized accounting system for ECSC operational expenditure was introduced in the first half of 1976. The relevant accounting scheme is an integral part of the internal rules which were forwarded to the Auditor and on which he has not commented. The figures contained in the monthly accounts and balances tally with and are completely comparable with those in the financial accounts.

#### 4. PRESENTATION OF THE BUDGET

The internal rules adopted by the Institution on the presentation and implementation of the ECSC operational budget codify the rules relating to the drawing-up and implementation of the ECSC operational budget. These rules are also intended to obviate any excessive and unjustified delay in the implementation of decisions taken by the High Authority/Commission. This is a major step forward.

Attention must also be drawn to the great improvements which have been made in the presentation of budget documents. The explanatory memorandum has been appreciably expanded and now incorporates macro-economic explanations tracing Community policy. The budgetary nomenclature has also been improved for greater transparency.

